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U.S. Arms Sales Spurred by Large Field Force and Complex Credit System

Following is the second of a series of articles on the international arms trade.

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WASHINGTON, July 19—The United States Government has become the leading purveyor of arms to the world, with total sales of \$12.6-billion since the middle of 1961. How has Washington done it?

Henry J. Kuss Jr., the Defense Department arms salesman, declines to discuss the techniques in detail, but it is possible to piece together from a number of sources some of the ways in which sales are generated.

The most obvious manner is direct action by Mr. Kuss's office. This has taken place under a number of forms, but two of the most successful have been the offset method, which Mr. Kuss originated, and the technique of persuading and then helping allied countries and other possible clients to project their military planning on a five-year basis, as the United States does.

Mr. Kuss developed the offset method after the Eisenhower Administration attempted an failed in late 1960 to persuade West Germany to reimburse the United States directly for the foreign exchange costs of maintaining American forces there. During the negotiations, Mr. Kuss discovered in conversation with Franz Josef Strauss, at that time Bonn's Defense Minister, that West Germany would be willing to make large weapons purchases if the American forces there would handle supplies for the developing Bundeswehr, the West German armed forces, and if Washington would agree to train thousands of German pilots, missile technicians and other specialists in the United States.

Sent Back at Once

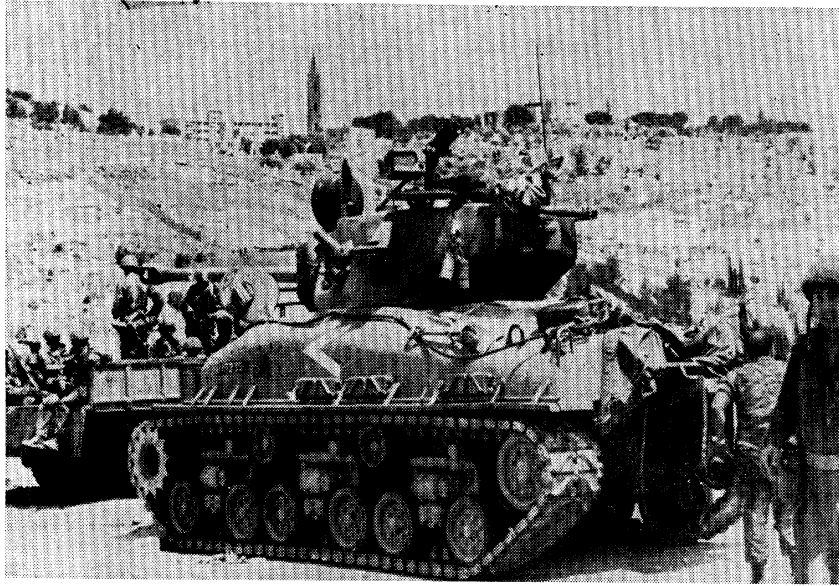
While returning to the United States with the American delegation Mr. Kuss suggested that he be allowed to work out an arrangement with Mr. Strauss. He was sent back to West Germany immediately and in early 1961 negotiated the first two-year offset agreement. Bonn agreed to purchase and pay for \$1.35-billion worth of American arms and training by the middle of 1963, enough to compensate for the gold drain caused by American troops in West Germany during 1961 and 1962. The agreement with West Germany was Mr. Kuss's first major sale, and it undoubtedly started him on the way to his current prominence. It led to a total of \$4.05-billion in West German arms-purchase commitments.

The West German Air Force had an unhappy experience with F-104 Starfighters it purchased through Mr. Kuss. It made unwieldy modifications on the aircraft and encountered problems with maintenance and pilot training. The result was that 61 of the planes crashed and the air force chief resigned last fall. Budgetary complications from the arms purchases contributed to the fall of former Chancellor Ludwig Erhard a short time later.

West Germany has not placed orders for the final \$500-million of its arms purchase commitment, although it has pledged to do so. Under a new agreement West Germany obtained the right to buy \$500-million a year in United States treasury bonds instead of arms. It has said it will continue arms purchases, but only as needed.

5-Year Planning Encouraged

The technique of encouraging and aiding other nations to do their military planning on a five-year basis also generates obvious opportunities for arms sales. The United States has



This American-built Sherman tank was among the Israeli military vehicles that rolled into Old City of Jerusalem

worked out such five-year military projections with all the members of the North Atlantic Treaty Organization and many of the 55 nations that receive military-assistance grants, with Japan, Sweden, Australia and a number of other states.

The projections are drawn up by the NATO planning experts or by American military-assistance and advisory groups with their counterparts in foreign armed forces. Visiting United States military delegations and teams of experts from Mr. Kuss's office also take part. The flow of information to Mr. Kuss's office identifies potential sales and the very existence of a five-year plan helps to persuade the country involved to purchase arms.

Military-assistance groups employ 12,353 servicemen and civilians overseas. The groups function to some extent as on-the-spot salesmen. Mr. Kuss's six sales teams are organized by country and by region: Europe, the Middle East, Asia, Africa and Latin America, that they will remain familiar with the characteristics of their areas.

The Army, the Navy and the Air Force each maintain separate central arms-sales offices to assist and supplement Mr. Kuss's teams.

Credit Fund Available

Where the NATO countries and Japan and Australia are concerned, Secretary McNamara has reinforced Mr. Kuss's efforts through the five-year plan. He has exerted continuous pressure on these nations to modernize their forces and meet their treaty commitments. Other refinements include having generals accompanying Mr. Kuss's team to extol the merits of American equipment to Europeans. The sale of one weapons system leads to relationships that produce more purchases.

The combination has been potent. So potent, in fact, that after Britain lost out to Mr. Kuss in a \$37-million tank sale to Italy in the spring of 1965 Prime Minister Wilson publicly complained that the "high-pressure salesmanship of the Americans" had "unbalanced the situation" in the Atlantic alliance.

The ability of Mr. Kuss to extend large and very liberal credit terms to his clients has been another important factor in his sales.

With a revolting arms-sales

credit fund of \$383-million, established by Congress in 1957 and expanded over the years, the Defense Department is able to extend \$1,532,000,000 in credits. The law requires that only 25 per cent of the credits be covered by the fund. Mr. Kuss can thus guarantee loans from private banks at commercial interest rates or extend direct United States Government credits at interest charges varying from nothing to commercial levels.

The Export-Import Bank has been another important and separate source of credit for Mr. Kuss. According to Congressional testimony by senior officials of the Administration, the Eximbank, at the request of the Defense Department, has either actually lent or committed itself to lend \$2.6-billion to foreign countries for arms since 1963.

In the fiscal years 1966 and 1967, arms loans constituted more than 25 per cent of the bank's lending business.

The loans are both direct and indirect through the Defense Department under a device called the "Country X account." Under this system the bank opens a line of credit, usually at 3 per cent interest, to the Defense Department which Mr. Kuss then uses to finance the sale.

By June 30 the bank had

made nearly \$1-billion in direct loans and \$591-million in Country X loans. Seventeen countries, 12 underdeveloped, were the recipients, including Jordan and Israel, countries that fought each other last month with their American weaponry.

The extent of the bank's involvement in the arms-sales program set off strong protests this week and an inquiry in Congress that could lead to restrictions on the bank's ability to lend money for weapons.

With such flexible credit devices, Mr. Kuss is able to "sweeten" a sale by making package loans, mixing the interest rates and offering long-term credits. Britain, for example, will pay for her \$2-billion in purchases over 12 years.

Intangible Element at Work

Weapons sales are generated a number of other ways. The government of an underdeveloped country may decide it wants to improve the quality of its armed forces and approach the American Embassy there to obtain weapons. The Ambassador may then decide to support the request for political reasons and convince the State Department of the wisdom of the sale.

The exposure of tens of thousands of officers from scores of countries to American military doctrine and weaponry through training courses under the military assistance program is an

intangible but probably significant element in creating an appetite for United States arms. From the middle of 1949 through the middle of 1965, 243,250 foreign officers and enlisted men took American training courses at bases here and abroad.

Finally, there is undoubtedly considerable basis for Mr. Kuss's argument that his sales result not from "super salesmanship" but from "super-buyers"—the European nations, Australia and Japan.

The immense scale of the American armaments industry and the long production runs sometimes enable another country to obtain a weapons system from the United States for 30 to 40 per cent less than what it would have cost the buyer to develop and produce a comparable weapons system at home.

It has been estimated, for example, that Britain saved about a billion dollars in research and development and production costs by deciding to buy two billion dollars worth of American F-111 multipurpose jets, F-4 Phantom fighter-bombers, C-130 transports rather than to produce similar planes herself.

The much larger amount of money spent by the United States on research and development — \$3-billion to \$4-billion a year, compared with \$855-

million for France, West Germany and Britain combined — often gives an American weapons system a distinct technological edge over comparable European-produced arms.

The American salesman can also point out to his customers that the quality of United States weaponry has been proved first in Korea and now in Vietnam.

Mr. Kuss spends about 90 days a year traveling outside the United States on business. He represents Secretary McNamara on the special Cabinet-level committee on trade expansion and is vigorously attempting to interest more American industries in arms exports through seminars organized by a Pentagon-sponsored group called the Defense-Industry Advisory Council Committee on Military Exports.

He is expanding joint weapons development and production programs with the Europeans as a technique for maintaining sales momentum and is promoting a scheme that might well become the best sales device of all — a defense common market, integrating the American armaments industry with that of the North Atlantic Treaty Organization allies. The Europeans, featuring the integration with the American giant would, in fact, mean absorption, have shown little interest in the concept.

In his speeches Mr. Kuss likes to portray his efforts as laying the groundwork for the ideal arms sales environment of the future. He seems to assume implicitly that the central world arms race between the industrialized Western nations and the Soviet Union will continue indefinitely, with greater opportunities and challenges for the adept arms salesman.

"We and our allies," he told the National Security Industrial Association in the fall of 1965, "will place in position for the 1975-85 period a new breed of industries, engineer-diplomats, capital and labor practiced in the tasks of using the common market approach to bring the economy of scale to an increasing number of production programs."

Tomorrow: Economic and policy problems of sales.